Bank of Marin Bancorp
Form 10-Q
May 08, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

xQUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2012

OR

oTRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________________ to __________________

Commission File Number 001-33572

Bank of Marin Bancorp
(Exact name of Registrant as specified in its charter)

California	20-8859754
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)
504 Redwood Blvd., Suite 100, Novato, CA	94947
(Address of principal executive office)	(Zip Code)

Registrant's telephone number, including area code: (415) 763-4520

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company" in Rule 12b(2) of the Exchange Act.

Large accelerated filer o   Accelerated filer x   Non-accelerated filer o   Smaller reporting company o

Indicate by check mark if the registrant is a shell company, as defined in Rule 12b(2) of the Exchange Act.
Yes o No x

As of April 30, 2012, there were 5,357,689 shares of common stock outstanding.

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PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

BANK OF MARIN BANCORP
CONSOLIDATED STATEMENTS OF CONDITION
at March 31, 2012 and December 31, 2011

(in thousands, except share data; 2012 unaudited)	March 31, 2012	December 31, 2011
Assets		
Cash and due from banks	$139,827	$127,732
Short-term investments	2,012	2,011
Cash and cash equivalents	141,839	129,743
Investment securities		
Held to maturity, at amortized cost	73,912	59,738
Available for sale (at fair market value; amortized cost $131,621 and $132,348 at March 31, 2012 and December 31, 2011, respectively)	134,443	135,104
Total investment securities	208,355	194,842
Loans, net of allowance for loan losses of $13,522 and $14,639 at March 31, 2012 and December 31, 2011, respectively	1,018,685	1,016,515
Bank premises and equipment, net	9,183	9,498
Interest receivable and other assets	43,222	42,665
Total assets	$1,421,284	$1,393,263
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Non-interest bearing	$409,409	$359,591
Interest bearing		
Transaction accounts	153,244	134,673
Savings accounts	82,151	75,617
Money market accounts	426,175	434,461
CDARS® time accounts	31,562	46,630
Other time accounts	143,100	152,000
Total deposits	1,245,641	1,202,972
Federal Home Loan Bank borrowings	15,000	35,000
Subordinated debenture	5,000	5,000
Interest payable and other liabilities	15,622	14,740
Total liabilities	1,281,263	1,257,712
Stockholders' Equity		
Preferred stock, no par value, Authorized - 5,000,000 shares, none issued	—	—
Common stock, no par value Authorized - 15,000,000 shares Issued and outstanding - 5,348,659 and 5,336,927 shares at March 31, 2012 and December 31, 2011, respectively	57,254	56,854
Retained earnings	81,130	77,098
Accumulated other comprehensive income, net	1,637	1,599
Total stockholders' equity	140,021	135,551

Total liabilities and stockholders' equity	$1,421,284	$1,393,263

The accompanying notes are an integral part of these consolidated financial statements.

BANK OF MARIN BANCORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
for the three months ended March 31, 2012, December 31, 2011 and March 31, 2011

	Three months ended		
(in thousands, except per share amounts; unaudited)	March 31, 2012	December 31, 2011	March 31, 2011
Interest income			
Interest and fees on loans	$15,328	$15,150	$15,900
Interest on investment securities			
Securities of U.S. Government agencies	967	847	733
Obligations of state and political subdivisions	387	396	302
Corporate debt securities and other	201	203	111
Interest on Federal funds sold and short-term investments	50	70	40
Total interest income	16,933	16,666	17,086
Interest expense			
Interest on interest bearing transaction accounts	44	30	38
Interest on savings accounts	22	23	29
Interest on money market accounts	183	282	337
Interest on CDARS® time accounts	32	45	94
Interest on other time accounts	304	336	358
Interest on borrowed funds	147	232	352
Total interest expense	732	948	1,208
Net interest income	16,201	15,718	15,878
Provision for loan losses	—	2,500	1,050
Net interest income after provision for loan losses	16,201	13,218	14,828
Non-interest income			
Service charges on deposit accounts	524	447	443
Wealth Management and Trust Services	456	445	434
Debit card interchange fees	234	233	188
Earnings on Bank-owned life insurance	188	197	169
Other income	293	202	365
Total non-interest income	1,695	1,524	1,599
Non-interest expense			
Salaries and related benefits	5,604	4,742	4,929
Occupancy and equipment	987	981	907
Depreciation and amortization	341	342	308
Federal Deposit Insurance Corporation insurance	233	210	387
Data processing	606	557	582
Professional services	585	561	733
Other expense	1,479	2,341	1,284
Total non-interest expense	9,835	9,734	9,130
Income before provision for income taxes	8,061	5,008	7,297
Provision for income taxes	3,121	1,625	2,788
Net income	$4,940	$3,383	$4,509
Net income per common share:			
Basic	$0.93	$0.64	$0.85
Diluted	$0.91	$0.63	0.84

Weighted-average shares used to compute net income per common share:			
Basic	5,326	5,313	5,283
Diluted	5,425	5,394	5,366
Dividends declared per common share	$0.17	$0.17	$0.16
Comprehensive income:			
Net income	$4,940	$3,383	$4,509
Other comprehensive income (loss)			
Change in net unrealized gain on available for sale securities	28	(191)	(1,058)
Reclassification adjustment for losses included in net income	38	—	—
Net change in unrealized gain on available for sale securities, before tax	66	(191)	(1,058)
Deferred tax expense (benefit)	28	(81)	(445)
Other comprehensive income (loss), net of tax	38	(110)	(613)
Comprehensive income	$4,978	$3,273	$3,896

The accompanying notes are an integral part of these consolidated financial statements.

BANK OF MARIN BANCORP
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
for the year ended December 31, 2011 and the three months ended March 31, 2012

(dollars in thousands; 2012 unaudited)	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income, Net of Taxes	Total
	Shares	Amount			
Balance at December 31, 2010	5,290,082	$55,383	$64,991	$1,546	$121,920
Net income	—	—	15,564	—	15,564
Other comprehensive income	—	—	—	53	53
Stock options exercised	34,913	741	—	—	741
Excess tax benefit - stock-based compensation	—	120	—	—	120
Stock issued under employee stock purchase plan	982	33	—	—	33
Restricted stock granted	5,675	—	—	—	—
Restricted stock forfeited / cancelled	(315)	—	—	—	—
Stock-based compensation - stock options	—	234	—	—	234
Stock-based compensation - restricted stock	—	143	—	—	143
Cash dividends paid on common stock	—	—	(3,457)	—	(3,457)
Stock issued in payment of director fees	5,590	200	—	—	200
Balance at December 31, 2011	5,336,927	$56,854	$77,098	$1,599	$135,551
Net income	—	—	4,940	—	4,940
Other comprehensive income	—	—	—	38	38
Stock options exercised	9,275	190	—	—	190
Excess tax benefit - stock-based compensation	—	15	—	—	15
Stock issued under employee stock purchase plan	157	5	—	—	5
Restricted stock forfeited	(380)	—	—	—	—
Stock-based compensation - stock options	—	48	—	—	48
Stock-based compensation - restricted stock	—	38	—	—	38
Cash dividends paid on common stock	—	—	(908)	—	(908)
Stock purchased by directors under director stock plan	100	4	—	—	4
Stock issued in payment of director fees	2,580	100	—	—	100
Balance at March 31, 2012	5,348,659	$57,254	$81,130	$1,637	$140,021

The accompanying notes are an integral part of these consolidated financial statements.

BANK OF MARIN BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the three months ended March 31, 2012 and 2011

(in thousands, unaudited)	March 31, 2012	March 31, 2011
Cash Flows from Operating Activities:		
Net income	$4,940	$4,509
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	—	1,050
Compensation expense--common stock for director fees	50	55
Stock-based compensation expense	86	93
Excess tax benefits from exercised stock options	(10)	(38)
Amortization of investment security premiums, net of accretion of discounts	356	343
Accretion of discount on acquired loans	(713)	(1,324)
Decrease in deferred loan origination fees, net[1]	(292)	(507)
Loss on sale of investment securities	38	—
Depreciation and amortization	341	308
Bargain purchase gain on acquisition, net of tax	—	(85)
Loss on sale of repossessed assets	3	—
Earnings on bank owned life insurance policies[1]	(188)	(169)
Net change in operating assets and liabilities:		
Interest receivable	(271)	(420)
Interest payable	(97)	61
Deferred rent and other rent-related expenses	42	107
Other assets[1]	213	1,141
Other liabilities	1,631	951
Total adjustments	1,189	1,566
Net cash provided by operating activities	6,129	6,075
Cash Flows from Investing Activities:		
Proceeds from sale of premises and equipment	—	18
Purchase of securities held to maturity	(15,372)	—
Purchase of securities available for sale	(14,414)	(6,428)
Proceeds from sale of securities available for sale	2,181	—
Proceeds from paydowns/maturity of securities held to maturity	1,000	13,307
Proceeds from paydowns/maturity of securities available for sale	12,764	—
Loans originated and principal collected, net[1]	(1,794)	25,334
Purchase of bank owned life insurance policies	(364)	(2,500)
Purchase of premises and equipment	(26)	(622)
Proceeds from sale of repossessed assets	22	—
Cash receipt from acquisition	—	44,042
Net cash (provided by) used in investing activities	(16,003)	73,151
Cash Flows from Financing Activities:		
Net increase (decrease) in deposits	42,669	(21,460)
Proceeds from stock options exercised	190	265
Repayment of Federal Home Loan Bank borrowings	(20,000)	(13,500)
Cash dividends paid on common stock	(908)	(847)
Stock issued under employee and director stock purchase plans	9	6
Excess tax benefits from exercised stock options	10	38
Net cash provided by (used in) financing activities	21,970	(35,498)

Net increase in cash and cash equivalents	12,096	43,728
Cash and cash equivalents at beginning of period	129,743	85,232
Cash and cash equivalents at end of period	$141,839	$128,960
Supplemental disclosure of cash flow information:		
Cash paid in interest	$829	$1,147
Cash paid in income taxes	$253	$203
Supplemental disclosure of non-cash investing and financing activities:		
Purchase of available-for-sale security on account and unsettled	$—	$5,218
Change in unrealized gain on available-for- sale securities	$66	$(1,058)
Loans transferred to repossessed assets	$—	$—
Stock issued in payment of director fees	$100	$100
Acquisition:		
Fair value of assets acquired	$—	$107,763
Fair value of liabilities assumed	$—	$107,678

1 Amounts for prior periods have been reclassified to conform to current financial statement presentation.
The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Introductory Explanation

References in this report to “Bancorp” mean the Bank of Marin Bancorp as the parent holding company for Bank of Marin, the wholly-owned subsidiary (the “Bank”). References to “we,” “our,” “us” mean the holding company and the Bank that are consolidated for financial reporting purposes.

Note 1: Basis of Presentation

The consolidated financial statements include the accounts of Bancorp and its only wholly-owned bank subsidiary, the Bank. All material intercompany transactions have been eliminated. In the opinion of Management, the unaudited interim consolidated financial statements contain all adjustments necessary to present fairly our financial position, results of operations, changes in stockholders' equity and cash flows. All adjustments are of a normal, recurring nature. Management has evaluated subsequent events through the date of filing, and has determined that there are no subsequent events that require recognition or disclosure.

Certain information and footnote disclosures presented in the annual consolidated financial statements are not included in the interim consolidated financial statements. Accordingly, the accompanying unaudited interim consolidated financial statements should be read in conjunction with our 2011 Annual Report on Form 10-K. The results of operations for the three months ended March 31, 2012 are not necessarily indicative of the operating results for the full year.

The following table shows: 1) weighted average basic shares, 2) potential common shares related to stock options, unvested restricted stock and stock warrant, and 3) weighted average diluted shares. Basic earnings per share (“EPS”) are calculated by dividing net income by the weighted average number of common shares outstanding during each period, excluding unvested restricted stock. Diluted EPS are calculated using the weighted average diluted shares. The number of potential common shares included in quarterly diluted EPS is computed using the average market prices during the three months included in the reporting period under the treasury stock method. We have two forms of our outstanding common stock: common stock and unvested restricted stock awards. Holders of restricted stock awards receive non-forfeitable dividends at the same rate as common stockholders and they both share equally in undistributed earnings.

	Three months ended		
(in thousands, except per share data; unaudited)	March 31, 2012	December 31, 2011	March 31, 2011
Weighted average basic shares outstanding	5,326,000	5,313,000	5,283,000
Add: Potential common shares related to stock options	49	39	42
Potential common shares related to unvested restricted stock	5	4	5
Potential common shares related to warrants	45	38	36
Weighted average diluted shares outstanding	5,326,099	5,313,081	5,283,083
Net income	$4,940	$3,383	$4,509
Basic EPS	$0.93	$0.64	$0.85
Diluted EPS	$0.91	$0.63	$0.84
Weighted average anti-dilutive shares not included in the calculation of diluted EPS-Stock options	32	75	64

Note 2: Recently Issued Accounting Standards

In December 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-11 Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities. The ASU enhances disclosures in order to improve the comparability of offsetting (netting) assets and liabilities reported in accordance with U.S. generally accepted accounting principles ("GAAP") and International Financial Reporting Standards ("IFRS") by requiring entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the statements of condition and instruments and transactions subject to an agreement similar to a master netting arrangement. This scope would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. This ASU is effective for annual periods beginning on or after January 1, 2013, and interim periods within those annual periods. We do not expect that the adoption of this ASU will have a significant impact on our financial condition or results of operations as it affects presentation only.

In June 2011, the FASB issued ASU No. 2011-05 Comprehensive Income (Topic 220) Presentation of Comprehensive Income. The ASU improves the comparability, consistency, and transparency of financial reporting and increases the prominence of items reported in other comprehensive income. The amendments to Topic 220, Comprehensive Income, require entities to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Entities are no longer permitted to present components of other comprehensive income as part of the statement of changes in stockholders' equity. Any adjustments for items that are reclassified from other comprehensive income to net income are to be presented on the face of the entities' financial statement regardless of the method of presentation for comprehensive income. The amendments do not change items to be reported in comprehensive income or when an item of other comprehensive income must be reclassified to net income, nor do the amendments change the option to present the components of other comprehensive income either net of related tax effects or before related tax effects. In December 2011, the FASB issued ASU No. 2011-12 Comprehensive Income (Topic 220) Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards, which supersedes certain pending paragraphs in ASU No. 2011-05 that pertain to how, when, and where reclassification adjustments are presented. This ASU is effective for fiscal years, and interim periods beginning on or after December 15, 2011. The specific requirement to present items that are reclassified from other comprehensive income to net income alongside their respective components of net income and other comprehensive income is deferred until the FASB re-deliberates. We have adopted this ASU in the first quarter of 2012.

In May 2011, the FASB issued ASU No. 2011-04 Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The ASU improves the comparability of fair value measurements presented and disclosed in accordance with U.S. GAAP and IFRS. The amendments to this ASU provide explanations on how to measure fair value, but do not require any additional fair value measurements and do not establish valuation standards or affect valuation practices outside of financial reporting. The amendments clarify existing fair value measurements and disclosure requirements to include: 1) application of the highest and best use and valuation premises concepts; 2) measuring fair value of an instrument classified in a reporting entity's shareholders' equity; and 3) disclosure requirements regarding quantitative information about unobservable inputs categorized within Level 3 of the fair value hierarchy. In addition, for assets and liabilities not recognized at fair value but disclosure is required, entities need to disclose the level in which the fair value measurement would be categorized within the fair value hierarchy. For public entities, ASU 2011-04 is effective during interim and annual periods beginning after December 15, 2011. We have adopted this ASU in the first quarter of 2012 and provided the applicable disclosure in Note 4 herein.

Note 3: Acquisition

On February 18, 2011, we entered into a modified whole-bank purchase and assumption agreement without loss share with the Federal Deposit Insurance Corporation (the “FDIC”), the receiver of Charter Oak Bank of Napa, California, to purchase certain assets and assume certain liabilities of the former Charter Oak Bank to enhance our market presence (the “Acquisition”). For further information related to the Charter Oak Bank Acquisition, see Note 2 to the Consolidated Financial Statements in the Company's 2011 Form 10-K.

Note 4: Fair Value of Assets and Liabilities

Fair Value Hierarchy and Fair Value Measurement

We group our assets and liabilities that are measured at fair value in three levels within the fair value hierarchy, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Valuations are based on quoted prices in active markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not involve a significant degree of judgment.

Level 2: Valuations are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuations for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3: Valuations are based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Values are determined using pricing models and discounted cash flow models and includes management judgment and estimation which may be significant.

The following table summarizes our assets and liabilities that were required to be recorded at fair value on a recurring basis.

(in thousands) Description of Financial Instruments	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Balance at March 31, 2012 (unaudited):				
Securities available for sale:				
Mortgage-backed securities and collaterized mortgage obligations issued by U.S. government agencies	$105,170	$—	$105,170	$—
Debentures of government sponsored agencies	$9,538	$—	$9,538	$—
Privately-issued collateralized mortgage obligations	$19,735	$—	$19,735	$—
Derivative financial liabilities (interest rate contracts)	$4,478	$—	$4,478	$—
Balance at December 31, 2011:				
Securities available for sale:		$—		
Mortgage-backed securities and collaterized mortgage obligations issued by U.S. government agencies	$108,857	$—	$108,857	$—
Debentures of government sponsored agencies	$8,050	$—	$8,050	$—
Privately-issued collateralized mortgage obligations	$18,197	$—	$18,197	$—
	$5,052	$—	$5,052	$—

Derivative financial liabilities (interest rate contracts)

Securities available for sale are recorded at fair value on a recurring basis. When available, quoted market prices (Level 1) are used to determine the fair value of securities available for sale. If quoted market prices are not available, we obtain pricing information from a reputable third-party service provider, who may utilize valuation techniques that use current market-based or independently sourced parameters, such as bid/ask prices, dealer-quoted prices, interest rates, benchmark yield curves, prepayment speeds, and credit spreads (Level 2). Level 1 securities include those traded on active markets, including U.S. Treasury securities and equity securities. Level 2 securities include U.S.

agencies' or government sponsored agencies' debt securities, mortgage-backed securities, and privately-issued collateralized mortgage obligations.

On a recurring basis, derivative financial instruments are recorded at fair value, which is based on the income approach using observable Level 2 market inputs, reflecting market expectations of future interest rates as of the measurement date. Standard valuation techniques are used to calculate the present value of the future expected cash flows assuming an orderly transaction. Valuation adjustments may be made to reflect both our own credit risk and the counterparties' credit quality in determining the fair value of the derivatives. Level 2 inputs for the valuations are limited to observable market prices for London Interbank Offered Rate ("LIBOR") cash rates (for the very short term), quoted prices for LIBOR futures contracts, observable market prices for LIBOR swap rates, and one-month and three-month LIBOR basis spreads at commonly quoted intervals. Mid-market pricing of the inputs is used as a practical expedient in the fair value measurements. Key inputs for interest rate valuations are used to project spot rates at resets specified by each swap, as well as to discount those future cash flows to present value at the measurement date. When the value of any collateral placed with counterparties is less than the interest rate derivative liability, the interest rate liability position is further discounted to reflect our potential credit risk to counterparties. We have used the spread between the Standard & Poors BBB rated U.S. Bank Composite rate and LIBOR with maturity term corresponding to the duration of the swaps to calculate this credit-risk-related discount of future cash flows.

Certain financial assets may be measured at fair value on a non-recurring basis. These assets are subject to fair value adjustments that result from the application of the lower of cost or fair value accounting or write-downs of individual assets, such as other real estate owned. For example, when a loan is identified as impaired, it is reported at the lower of cost or fair value, measured based on the loan's observable market price (Level 1) or the current appraised value of the underlying collateral securing the loan if the loan is collateral dependent (Level 3). Securities held to maturity may be written down to fair value (determined using the same techniques discussed above for securities available for sale) as a result of an other-than-temporary impairment, if any.

The following table presents the carrying value of financial instruments by level within the fair value hierarchy as of March 31, 2012 and December 31, 2011, for which a non-recurring change in fair value has been recorded.

(in thousands) Description of Financial Instruments	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) [1]	Losses for the three months ended March 31, 2012 [1]	Losses for the three months ended March 31, 2011 [2]
At March 31, 2012 (unaudited):						
Impaired loans carried at fair value [3]	$3,785	—	—	$3,785	$51	$1,213
At December 31, 2011:						
Impaired loans carried at fair value [3]	$5,269	—	—	$5,269		

[1] Represents collateral-dependent loan principal balances that had been generally written down to the values of the underlying collateral, net of specific valuation allowance of $608 thousand and $1.4 million at March 31, 2012 and December 31, 2011, respectively. Significant unobservable inputs such as appraisals, recent comparable sales or offered prices are factored in when valuing these collaterals. The carrying value of loans fully charged-off, which includes unsecured lines of credit, overdrafts and all other loans, is zero.

[2] Represents net charge-offs during the period presented and the specific valuation allowance established on loans during the period.

[3] Represents the portion of impaired loans that have been written down to their estimated fair value.

Disclosures about Fair Value of Financial Instruments

The table below is a summary of fair value estimates for financial instruments as of March 31, 2012 and December 31, 2011, excluding financial instruments recorded at fair value on a recurring basis (summarized in the first table in Note 4). The carrying amounts in the following table are recorded in the consolidated statements of condition under the indicated captions. We have excluded non-financial assets and non-financial liabilities defined by the Codification (ASC 820-10-15-1A), such as Bank premises and equipment, deferred taxes and other liabilities. In addition, we have not disclosed the fair value of financial instruments specifically excluded from disclosure requirements of the Financial Instruments Topic of the Codification (ASC 825-10-50-8), such as Bank-owned life insurance policies.

	March 31, 2012			December 31, 2011	
(in thousands; 2012 unaudited)	Carrying Amounts	Fair Value	Fair Value Hierarchy	Carrying Amounts	Fair Value
Financial assets					
Cash and cash equivalents	$141,839	$141,839	Level 1	$129,743	$129,743
Investment securities held to maturity	73,912	76,132	Level 2	59,738	62,185
Loans, net	1,018,685	1,024,184	Level 3	1,016,515	1,053,762
Interest receivable	4,909	4,909	Level 2	4,638	4,638
Financial liabilities					
Deposits	1,245,641	1,246,582	Level 2	1,202,972	1,203,974
Federal Home Loan Bank borrowings	15,000	16,185	Level 2	35,000	36,256
Subordinated debenture	5,000	4,886	Level 2	5,000	4,759
Interest payable	284	284	Level 2	381	381

Following is a description of methods and assumptions used to estimate the fair value of each class of financial instrument not recorded at fair value but required for disclosure purposes:

Cash and Cash Equivalents - The carrying amounts of cash and cash equivalents approximate their fair value because of the short-term nature of these instruments.

Held-to-maturity Securities - Held-to-maturity securities, which generally consist of obligations of state & political subdivisions and corporate bonds, are recorded at their amortized cost. Their fair value for disclosure purposes is determined using methodologies similar to those described above for available-for-sale securities using Level 2 inputs. If Level 2 inputs are not available, we may utilize pricing models that incorporate unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities (Level 3). As of March 31, 2012, we did not hold any securities whose fair value was measured using significant unobservable inputs.

Loans - The fair value of loans with variable interest rates approximates their current carrying value, because their rates are regularly adjusted to current market rates. The fair value of fixed rate loans or variable loans at negotiated interest rate floors or ceilings with remaining maturities in excess of one year is estimated by discounting the future cash flows using current market rates at which similar loans would be made to borrowers with similar credit worthiness and similar remaining maturities. The allowance for loan losses (“ALLL”) is considered to be a reasonable estimate of loan discount due to credit risks.

Interest Receivable and Payable - The interest receivable and payable balances approximate their fair value due to the short-term nature of their settlement dates.

Deposits - The fair value of non-interest bearing deposits, interest bearing transaction accounts, savings accounts and money market accounts is the amount payable on demand at the reporting date. The fair value of time deposits is estimated by discounting the future cash flows using current rates offered for deposits of similar remaining maturities.

Federal Home Loan Bank Borrowings - The fair value is estimated by discounting the future cash flows using current rates offered by the Federal Home Loan Bank of San Francisco ("FHLB") for similar credit advances corresponding to the remaining duration of our fixed-rate credit advances.

Subordinated Debenture - The fair value of the subordinated debenture is estimated by discounting the future cash flows (interest payment at a rate of three-month LIBOR plus 2.48%) using current market rates at which similar bonds would be issued with similar credit ratings as ours and similar remaining maturities. We have used the spread of the seven-year BBB rated U.S. Bank Composite over LIBOR to calculate this credit-risk-related discount of future cash flows.

Commitments - Loan commitments and standby letters of credit generate ongoing fees, which are recognized over the term of the commitment period. In situations where the borrower's credit quality has declined, we record a reserve for these off-balance sheet commitments. Given the uncertainty in the likelihood and timing of a commitment being drawn upon, a reasonable estimate of the fair value of these commitments is the carrying value of the related unamortized loan fees plus the reserve, which is not material.

Note 5: Investment Securities

Our investment securities portfolio consists primarily of U.S. government agency securities, including mortgage-backed securities ("MBS") and collateralized mortgage obligations ("CMOs") issued or guaranteed by FNMA, FHLMC, or GNMA. Our portfolio also includes obligations of state and political subdivisions, corporate bonds, debentures issued by government-sponsored agencies such as FNMA and FHLMC, as well as privately issued CMOs, as reflected in the table below:

	March 31, 2012				December 31, 2011			
	Amortized	Fair	Gross Unrealized		Amortized	Fair	Gross Unrealized	
(in thousands; 2012 unaudited)	Cost	Value	Gains	(Losses)	Cost	Value	Gains	(Losses)
Held to maturity								
Obligations of state and political subdivisions	$61,793	$64,066	$2,321	$(48)	$54,738	$57,226	$2,688	$(200)
Corporate bonds	12,119	12,066	7	(60)	5,000	4,959	---	(41)
Total held to maturity	73,912	76,132	2,328	(108)	59,738	62,185	2,688	(241)
Available for sale								
Securities of U. S. government agencies:								
MBS pass-through securities issued by FNMA and FHLMC	28,473	29,552	1,079	---	26,360	27,486	1,126	---
CMOs issued by FNMA	10,372	10,644	272	---	10,775	11,099	324	---
CMOs issued by FHLMC	16,790	17,181	391	---	18,853	19,386	533	---
CMOs issued by GNMA	46,828	47,793	965	---	49,940	50,886	946	---
Debentures of government sponsored agencies	9,559	9,538	34	(55)	8,000	8,050	50	---
Privately issued CMOs	19,599	19,735	238	(102)	18,420	18,197	116	(339)
Total available for sale	131,621	134,443	2,979	(157)	132,348	135,104	3,095	(339)
Total investment securities	205,533	210,575	5,307	(265)	192,086	197,289	5,783	(580)

The amortized cost and fair value of investment debt securities by contractual maturity at March 31, 2012 are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	March 31, 2012			
	Held to Maturity		Available for Sale	
(in thousands; unaudited)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	$3,908	$3,927	—	—
After one but within five years	34,430	34,994	12,994	13,129
After five years through ten years	24,365	25,796	10,341	10,513
After ten years	11,209	11,415	108,286	110,801
Total	$73,912	$76,132	$131,621	$134,443

One available-for-sale security was sold in February 2012 with a carrying value of $2.2M and net loss of $38 thousand. There were no sales of held-to-maturity securities in the first quarter of 2012.

Investment securities carried at $52.5 million and $53.6 million at March 31, 2012 and December 31, 2011, respectively, were pledged with the State of California: $51.8 million and $52.9 million to secure public deposits in compliance with the Local Agency Security Program at March 31, 2012 and December 31, 2011, respectively, and $710 thousand and $707 thousand to provide collateral for trust deposits at March 31, 2012 and December 31, 2011, respectively. In addition, investment securities carried at $1.1 million were pledged to collateralize an internal Wealth Management and Trust Services ("WMTS") checking account at both March 31, 2012 and December 31, 2011.

Other-Than-Temporarily Impaired Debt Securities

We do not have the intent to sell the securities that are temporarily impaired, and it is more likely than not that we will not have to sell those securities before recovery of the cost basis. Additionally, we have evaluated the credit ratings of our investment securities and their issuers and/or insurers, if applicable. Based on our evaluation, Management has determined that no investment security in our investment portfolio is other-than-temporarily impaired.

Twenty-two and seventeen investment securities were in unrealized loss positions at March 31, 2012 and December 31, 2011, respectively. They are summarized and classified according to the duration of the loss period as follows:

March 31, 2012	< 12 continuous months		> 12 continuous months		Total Securities in a loss position	
(In thousands; unaudited)	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Held-to-maturity						
Obligations of state & political subdivisions	$12,235	$(48)	$—	$—	$12,235	$(48)
Corporate bonds	5,059	(60)	—	—	5,059	(60)
Total held to maturity	17,294	(108)	—	—	17,294	(108)
Available-for-sale						
Debentures of government sponsored agencies	4,504	(55)	—	—	4,504	(55)
Privately issued CMOs	2,894	(28)	4,576	(74)	7,470	(102)
Total available for sale	7,398	(83)	4,576	(74)	11,974	(157)
Total temporarily impaired securities	$24,692	$(191)	$4,576	$(74)	$29,268	$(265)

December 31, 2011	< 12 continuous months		> 12 continuous months		Total Securities in a loss position	
(In thousands)	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Held-to-maturity						
Obligations of state & political subdivisions	$17,607	$(174)	$1,775	$(26)	$19,382	$(200)
Corporate bonds	4,959	(41)	—	—	4,959	(41)
Total held to maturity	22,566	(215)	1,775	(26)	24,341	(241)
Available-for-sale						
Privately issued CMOs	$8,173	$(205)	$3,757	$(134)	$11,930	$(339)
Total available for sale	$8,173	$(205)	$3,757	$(134)	$11,930	$(339)
Total temporarily impaired securities	$30,739	$(420)	$5,532	$(160)	$36,271	$(580)

Ten obligations of U.S. states and political subdivisions, two corporate bonds and one government agency debenture in our portfolio were in a temporary loss position for less than twelve months. These securities are deemed credit worthy without delinquency history and are all rated above A-/A1 by Standard & Poor's/Moody. As a result, we concluded that these securities were not other-than-temporarily impaired at March 31, 2012.

The unrealized losses associated with privately issued CMOs is primarily driven by changes in interest rates and not due to the credit quality of the securities. These securities are privately issued by financial institutions with no guarantee from government sponsored agencies. They are collateralized by residential mortgages or home equity loans and may

be prepaid at par prior to maturity. Most of these securities were AAA rated by at least one major rating agency. We estimate loss projections for each security by assessing loans collateralizing the security and determining expected default rates and loss severities. Based upon our assessment of expected credit losses of each security given the performance of the underlying collateral and credit enhancements where applicable, we concluded that these securities were not other-than-temporarily impaired at March 31, 2012.

Securities Carried at Cost

As a member of the FHLB, we are required to maintain a minimum investment in the FHLB capital stock determined by the Board of Directors of the FHLB. The minimum investment requirements can also increase in the event we need to increase our borrowing capacity with the FHLB. Shares cannot be purchased or sold except between the FHLB and its members at its $100 per share par value. We held $5.4 million of FHLB stock recorded at cost in other assets at March 31, 2012, and December 31, 2011, respectively. On February 22, 2012, FHLB declared a cash dividend for the fourth quarter of 2011 at an annualized dividend rate of 0.48%. Management does not believe that the FHLB stock is other-than-temporarily-impaired, as we expect to be able to redeem this stock at cost.

As a member bank of Visa U.S.A., we hold 16,939 shares of Visa Inc. Class B common stock with a carrying value of zero, which is equal to our cost basis. These shares are restricted from resale until their conversion into Class A (voting) shares upon the termination of Visa Inc.'s covered litigation escrow account. The conversion rate will be determined upon the final resolution of the Visa Inc. covered litigation. The fair value of the Class B common stock we own was $850 thousand and $732 thousand at March 31, 2012 and December 31, 2011, respectively, based on the Class A as-converted rate of 0.4254.

Note 6: Loans and Allowance for Loan Losses

Credit Quality of Loans

Outstanding loans by class and payment aging as of March 31, 2012 and December 31, 2011 are as follows:

Loan Aging Analysis by Class As of March 31, 2012 and December 31, 2011

(dollars in thousands; 2012 unaudited)	Commercial	Commercial real estate, owner-occupied	Commercial real estate, investor	Construction	Home equity	Other residential [1]	Installment and other consumer	Total
March 31, 2012								
30-59 days past due	$224	$—	$—	$—	$195	$483	$429	$1,331
60-89 days past due	—	—	460	—	—	—	10	470
Greater than 90 days past due (non-accrual) [2]	2,282	1,403	6,529	2,831	795	—	566	14,406
Total past due	2,506	1,403	6,989	2,831	990	483	1,005	16,207
Current	174,149	170,951	444,920	51,809	96,840	56,766	20,565	1,016,000
Total loans [3]	$176,655	$ 172,354	$451,909	$54,640	$97,830	$57,249	$21,570	$1,032,207
Non-accrual loans to total loans	1.3 %	0.8 %	1.4 %	5.2 %	0.8 %	—	2.6 %	1.4 %
December 31, 2011								
30-59 days past due	$371	$ 576	$6,060	$—	$195	$—	$7	$7,209
60-89 days past due	139	—	—	—	—	—	34	173
Greater than 90 days past due (non-accrual) [2]	2,955	2,033	741	3,014	766	1,942	519	11,970
Total past due	3,465	2,609	6,801	3,014	961	1,942	560	19,352
Current	172,325	172,096	439,624	48,943	97,082	59,560	22,172	1,011,802
Total loans [3]	$175,790	$ 174,705	$446,425	$51,957	$98,043	$61,502	$22,732	$1,031,154
Non-accrual loans to total loans	1.7 %	1.2 %	0.2 %	5.8 %	0.8 %	3.2 %	2.3 %	1.2 %

[1] Our residential loan portfolio includes no sub-prime loans, nor is it our normal practice to underwrite loans commonly referred to as "Alt-A mortgages", the characteristics of which are loans lacking full documentation, borrowers having low FICO scores or higher loan-to-value ratios.

[2] March 31, 2012 amounts include $1.6 million of Purchased Credit Impaired ("PCI") loans that have stopped accreting interest and exclude accreting PCI loans of $4.4 million, as their accretable yield interest recognition is independent from the underlying contractual loan delinquency status. There were no accruing loans past due more than 90 days at March 31, 2012 or December 31, 2011.

[3] Amounts were net of deferred loan fees of $1.3 million and $1.6 million at March 31, 2012 and December 31, 2011, respectively.

Our commercial loans are generally made to established small to mid-sized businesses to provide financing for their working capital needs or acquisition of fixed assets. Management examines historical, current, and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral. The cash flows of borrowers, however, may not occur as expected, and the collateral securing these loans may fluctuate in value. Most commercial and industrial loans are secured by the assets being financed, such as accounts receivable or inventory, and incorporate a personal guarantee. Some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. We target stable local businesses with strong guarantors that have proven to be more resilient in periods of economic stress. Typically, the strong guarantors provide an additional source of repayment for most of our credit extensions.

Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans discussed above. We underwrite these loans to be repaid from cash flow and to be supported by real property collateral. Repayment of commercial real estate loans is largely dependent on the successful operation of the property securing the loan, or the business conducted on the property securing the loan. Substantially all of these loans underwritten by us meet a minimum debt coverage ratio of 1.20:1.00, and we also generally require a conservative loan-to-value of 65% or less. Furthermore, substantially all of our loans are guaranteed by the owners of the properties. Commercial real estate loans may be adversely affected by conditions in the real estate markets or in the general economy. In the event of a vacancy, strong guarantors have historically carried the loans until a replacement tenant can be found. The owner’s substantial equity investment provides a strong economic incentive to continue to support the commercial real estate projects. As such, we experience nominal delinquencies in this portfolio.

Construction loans are generally made to developers and builders to finance land acquisition as well as the subsequent construction. These loans are underwritten after evaluation of the borrower's financial strength, reputation, prior track record and obtaining independent appraisal reviews. The construction industry can be severely impacted by several major factors, including: 1) the inherent volatility of real estate markets; 2) vulnerability to weather delays, labor, or material shortages and price hikes; and, 3) generally thin margins and tight cash flow. Estimates of construction costs and value associated with the complete project may be inaccurate. Repayment of construction loans is largely dependent on the success of the ultimate project.

Consumer loans primarily consist of home equity lines of credit and loans, other residential (tenancy-in-common, or “TIC”) loans and other personal loans. We originate consumer loans utilizing credit score information, debt-to-income ratio and loan-to-value ratio analysis. To monitor and manage consumer loan risk, policies and procedures are developed and modified, as needed. This activity, coupled with relatively small loan amounts that are spread across many individual borrowers, minimizes risk. Additionally, trend reports are reviewed by Management on a regular basis. Underwriting standards for home equity loans include, but are not limited to, a maximum loan-to-value percentage of 75% of loans that are $1,250,000 or less (and even more conservatively for homes with values in excess of this amount), the number of such loans a borrower can have at one time and documentation requirements. Our underwriting of the other residential loans, mostly secured by TIC units in San Francisco, was cautious compared to traditional residential mortgages due to the unique ownership structure and the interest-only feature of some of these loans. However, these borrowers tend to have more equity in their properties, which mitigates risk. Personal loans are nearly evenly split between mobile home loans and floating home loans along with a small number of direct auto loans and installment loans. Personal unsecured loans are offered to consumers with additional underwriting procedures in place, including net worth, and borrowers’ verified liquid assets analysis. In general, personal loans usually have a higher degree of risk than other types of loans.

We use a risk rating system as a tool used to evaluate asset quality, and to identify and monitor credit risk in individual loans, and ultimately in the portfolio. Definitions of loans that are risk graded “Special Mention” or worse loans are consistent with those used by the banking regulators. Our internally assigned grades are as follows:

Pass – Loans to borrowers of acceptable or better credit quality. Borrowers in this category demonstrate fundamentally sound financial positions, repayment capacity, credit history and management expertise. Loans in this category must have an identifiable and stable source of repayment and meet the Bank’s policy regarding debt service coverage ratios. These borrowers are capable of sustaining normal economic, market or operational setbacks without significant financial impacts. Financial ratios and trends are acceptable. Negative external industry factors are generally not present. The loan may be secured, unsecured or supported by non-real estate collateral for which the value is more difficult to determine and/or marketability is more uncertain. This category also includes “Watch” loans, where the primary source of repayment has been delayed. “Watch” is intended to be a transitional grade, with either an upgrade or downgrade within a reasonable period.

Special Mention - Potential weaknesses that deserve close attention. If left uncorrected, those potential weaknesses may result in deterioration of the payment prospects for the asset. Special Mention assets do not present sufficient risk to warrant adverse classification.

Substandard - Inadequately protected by either the current sound worth and paying capacity of the obligor or the collateral pledged, if any. A Substandard asset has a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Substandard assets are characterized by the distinct possibility that we will sustain some loss if such weaknesses or deficiencies are not corrected. Loss potential, while inherent in the aggregate substandard amount, does not necessarily exist in the individual assets classified Substandard. Well-defined weaknesses include adverse trends or developments of the borrower’s financial condition, managerial weaknesses and/or significant collateral deficiencies.

Doubtful - Critical weaknesses that make collection or liquidation in full improbable. There may be specific pending events that work to strengthen the asset, however, the amount or timing of the loss may not be determinable. Pending events generally occur within one year of the asset being classified as Doubtful. Examples include: merger, acquisition, or liquidation; capital injection; guarantee; perfecting liens on additional collateral; and refinancing. Such loans are placed on non-accrual status and usually are collateral-dependent.

We regularly review our credits for accuracy of risk grades whenever new financial information is received. Borrowers are required to submit financial information at regular intervals:

- Generally, commercial borrowers with lines of credit are required to submit financial information with reporting intervals ranging from monthly to annually depending on credit size, risk and complexity.
- Investor commercial real estate borrowers with loans greater than $750 thousand are required to submit rent rolls or property income statements at least annually.
- Construction loans are monitored monthly, and assessed on an ongoing basis.
- Home equity and other consumer loans are assessed based on delinquency.
- Loans graded “Watch” or more severe, regardless of loan type, are assessed no less than quarterly.

The following table represents our analysis of loans by internally assigned grades, including the PCI loans, at March 31, 2012 and December 31, 2011:

(in thousands; 2012 unaudited)	Commercial	Commercial real estate, owner-occupied	Commercial real estate, investor	Construction	Home equity	Other residential	Installment and other consumer	Purchased credit-impaired	Total
Credit Risk Profile by Internally Assigned Grade:									
March 31, 2012									
Pass	$ 138,051	$ 143,616	$ 439,368	$ 35,259	$ 92,237	$ 52,653	$ 20,675	$ 2,051	$ 923,910
Special Mention	22,107	21,307	5,026	—	1,838	1,765	—	609	52,652
Substandard	15,868	3,633	5,936	19,381	3,755	2,831	895	3,346	55,645
Doubtful	—	—	—	—	—	—	—	—	—
Total loans	$ 176,026	$ 168,556	$ 450,330	$ 54,640	$ 97,830	$ 57,249	$ 21,570	$ 6,006	$ 1,032,207
December 31, 2011									
Pass	$ 148,806	$ 146,449	$ 433,307	$ 32,272	$ 93,188	$ 54,711	$ 21,648	$ 1,541	$ 931,922
Special Mention	7,874	18,434	4,877	—	838	2,010	—	529	34,562
Substandard	17,897	6,609	6,617	19,492	3,677	4,420	895	3,563	63,170
Doubtful	98	—	—	193	339	361	189	320	1,500
Total loans	$ 174,675	$ 171,492	$ 444,801	$ 51,957	$ 98,042	$ 61,502	$ 22,732	$ 5,953	$ 1,031,154

Troubled Debt Restructuring

Our loan portfolio includes certain loans that have been modified in a Troubled Debt Restructuring ("TDR"), where economic concessions have been granted to borrowers experiencing financial difficulties. These concessions typically result from our loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. TDRs on nonaccrual status at the time of restructure may be returned to accruing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

When a loan is modified, management evaluates any possible impairment based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases management uses the current fair value of the collateral, less selling costs, instead of discounted cash flows. If management determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs and unamortized premium or discount), impairment is recognized through a specific allowance or a charge-off of the loan.

The table below summarizes outstanding TDR loans by loan classes as of March 31, 2012 and December 31, 2011. The summary includes those TDRs that are on nonaccrual status and those that continue to accrue interest.

(in thousands; 2012 unaudited) Recorded investment in Troubled Debt Restructurings [1]	As of March 31, 2012	December 31, 2011
Commercial	$12,468	$4,969
Commercial real estate, owner-occupied	1,403	1,403
Construction	11,820	800
Home equity	560	467
Other residential	1,459	1,464
Installment and other consumer	1,543	1,552
Total	$29,253	$10,655

[1] Includes $25.6 million and $6.3 million of TDR loans that were accruing interest as of March 31, 2012 and December 31, 2011, respectively.

The tables below presents the following information for TDRs modified during the periods presented: number of contracts modified, the recorded investment in the loans prior to modification, and the recorded investment in the loans after the loans were restructured. Modifications during the three months ended March 31, 2012 primarily involved payment extensions and forbearances, while modifications in 2011 involved interest rate concessions, maturity extensions and payment deferral, or some combination thereof. There were two commercial loans, two commercial real estate loans and one construction loan modified as troubled debt restructurings within the previous twelve months with recorded investments of $830 thousand that subsequently defaulted and were charged-off in the three-month period ended March 31, 2012. During the three months ended December 31, 2011 and March 31, 2011, defaults on loans restructured during the previous twelve months were not significant and such defaults did not significantly impact our determination of the allowance for loan losses.

(dollars in thousands; unaudited)	Number of Contracts Modified	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment[1]	Post-Modification Outstanding Recorded Investment at period end
Troubled Debt Restructurings during the three months ended March 31, 2012:				
Commercial	7	$ 8,406	$ 8,302	$ 8,272
Construction	6	11,324	11,324	11,324
Home equity	1	100	100	100
Total	14	$ 19,830	$ 19,726	$ 19,696
Troubled Debt Restructurings during the three months ended March 31, 2011:				
Commercial	8	$ 1,835	$ 1,813	$ 1,706
Construction	1	290	290	169
Other residential	1	238	238	238
Installment and other consumer	1	224	224	224
Total	11	$ 2,587	$ 2,565	$ 2,337

Impaired loan balances and their related allowance by major classes of loans

The table below summarizes information on impaired loans and their related allowance:

(dollars in thousands; 2012 unaudited)	Commercial	Commercial real estate, owner-occupied	Commercial real estate, investor	Construction	Home equity	Other residential	Installment and other consumer	Total
March 31, 2012								
Recorded investment in impaired loans:								
With no specific allowance recorded	$ 10,652	$ 1,403	$ 6,529	$ 13,925	$584	$1,459	$1,009	$35,561
With a specific allowance recorded	2,613	452	1,069	399	491	—	1,100	6,124
Total recorded investment in impaired loans	$ 13,265	$ 1,855	$ 7,598	$ 14,324	$1,075	$1,459	$2,109	$41,685
Unpaid principal balance of impaired loans:								
With no specific allowance recorded	$ 12,317	$ 3,060	$ 6,609	$ 16,709	$1,070	$1,459	$1,051	$42,275
With a specific allowance recorded	3,055	983	1,531	585	491	—	1,100	7,745
Total unpaid principal balance of impaired loans	$ 15,372	$ 4,043	8,140	$ 17,294	$1,561	$1,459	$2,151	$50,020
Specific allowance	$ 793	$ 42	$ 154	$ 3	$375	$—	$513	$1,880
Average recorded investment in impaired loans during the quarter ended March 31, 2012	15,352	1,354	3,853	14,544	1,411	3,074	2,102	41,690
Interest income recognized on impaired loans during the quarter ended March 31, 2012	144	—	65	162	5	25	17	418
December 31, 2011								
Recorded investment in impaired loans:								
With no specific allowance recorded	$ 2,866	$ 2,195	$ 648	$ 2,395	$591	$1,464	$1,022	$11,181
With a specific allowance recorded	2,969	1,018	623	909	454	1,942	1,049	8,964
Total recorded investment in impaired loans	$ 5,835	$ 3,213	1,271	$ 3,304	$1,045	$3,406	$2,071	$20,145
Unpaid principal balance of impaired loans:								
With no specific allowance recorded	$ 4,730	$ 5,140	$ 648	$ 5,007	$1,077	$1,464	$1,064	$19,130
	4,598	1,862	825	1,095	544	1,942	1,049	11,915

With a specific allowance recorded								
Total recorded investment in impaired loans	$ 9,328	$ 7,002	1,473	$ 6,102	$1,621	$3,406	$2,113	$31,045
Specific allowance	$ 1,285	$ 169	$ 163	$ 194	$262	$408	$465	$2,946
Average recorded investment in impaired loans during the year ended December 31, 2011	4,695	1,873	595	3,505	813	1,612	1,844	14,937
Interest income recognized on impaired loans during the year ended December 31, 2011	102	—	38	—	14	72	26	252

The gross interest income that would have been recorded had non-accrual loans been current totaled $256 thousand, $246 thousand and $220 thousand in the quarters ended March 31, 2012, December 31, 2011 and March 31, 2011, respectively. PCI loans are excluded from the foregone interest data above as their accretable yield interest recognition is independent from the underlying contractual loan delinquency status. See “PCI Loans” for further discussion.

Management monitors delinquent loans continuously and identifies problem loans, generally loans graded Substandard or worse, to be evaluated individually for impairment testing. Generally, we charge off our estimated losses related to specifically-identified impaired loans when it is deemed uncollectible. The charged-off portion of impaired loans outstanding at March 31, 2012 totaled approximately $4.0 million. At March 31, 2012, there were no significant commitments to extend credit on impaired loans, including loans to borrowers whose terms have been modified in troubled debt restructurings.

The following table discloses loans by major portfolio category and activity in the ALLL, as well as the related ALLL disaggregated by impairment evaluation method:

Allowance for Loan Losses and Recorded Investment in Loans as of and for the three months ended March 31, 2012

(dollars in thousands; unaudited)	Commercial	Commercial real estate, owner-occupied	Commercial real estate, investor